

**PART 1. FINANCIAL INFORMATION**  
**Item 1. Condensed Consolidated Financial Statements**

**QKL STORES INC. AND SUBSIDIARIES**  
**Condensed Consolidated Balance Sheets**

	<b>September 30,</b>	<b>December 31, 2009</b>
	<b>2010</b>	
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Cash	\$ 48,372,672	\$ 45,912,798
Restricted cash	98,161	181,836
Accounts receivable	712,606	283,929
Inventories	23,499,640	24,691,156
Other receivables	14,992,551	13,980,572
Prepaid expenses	4,265,965	2,993,191
Advances to suppliers	4,657,114	2,965,139
Deferred income tax assets	859,736	417,788
<b>Total current assets</b>	<b>97,458,445</b>	<b>91,426,409</b>
Property, plant and equipment, net	20,961,609	29,402,630
Land use rights, net	755,807	753,226
Goodwill	31,250,657	19,280,509
Other assets	394,380	408,391
<b>Total assets</b>	<b>\$ 150,820,898</b>	<b>\$ 141,271,165</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 29,403,630	\$ 29,244,923
Cash card and coupon liabilities	9,837,627	7,721,630
Customer deposits received	982,005	3,862,890
Accrued expenses and other payables	7,094,505	6,656,089
Income taxes payable	1,079,544	1,154,229
<b>Total current liabilities</b>	<b>48,397,311</b>	<b>48,639,761</b>
Warrant liabilities	-	44,304,034
<b>Total liabilities</b>	<b>48,397,311</b>	<b>92,943,795</b>
Commitments and contingencies	-	-
<b>Stockholders' equity</b>		
Common stock, \$.001 par value per share, authorized 100,000,000 shares, issued and outstanding 29,717,441 and 29,475,983 shares at September 30, 2010 and December 31, 2009, respectively	29,717	29,476
Series A convertible preferred stock, par value \$0.01, authorized 10,000,000 shares, issued and outstanding 7,321,698 and 7,548,346 at September 30, 2010 and December 31, 2009, respectively	73,217	75,483
Additional paid-in capital	90,519,167	53,191,217
Retained earnings – appropriated	4,913,072	4,913,072
Retained earnings(Accumulated deficit)	790,974	(14,236,111)

Accumulated other comprehensive income	<u>6,097,440</u>	<u>4,354,233</u>
Total stockholders' equity	<u>102,423,587</u>	<u>48,327,370</u>
<b>Total liabilities and stockholders' equity</b>	<b><u><u>\$ 150,820,898</u></u></b>	<b><u><u>\$ 141,271,165</u></u></b>

*See notes to unaudited condensed consolidated financial statements.*

**QKL STORES INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Income**

	(Unaudited)		(Unaudited)	
	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
Net sales	\$ 212,575,456	\$ 174,410,057	\$ 64,869,749	\$ 56,567,838
Cost of sales	175,160,430	143,823,125	53,575,513	46,820,423
Gross profit	<u>37,415,026</u>	<u>30,586,932</u>	<u>11,294,236</u>	<u>9,747,415</u>
<b>Operating expenses:</b>				
Selling expenses	21,801,656	16,255,898	7,817,663	5,624,479
General and administrative expenses	6,022,119	3,217,258	2,123,248	1,051,608
Total operating expenses	<u>27,823,775</u>	<u>19,473,156</u>	<u>9,940,911</u>	<u>6,676,087</u>
Income from operations	<u>9,591,251</u>	<u>11,113,776</u>	<u>1,353,325</u>	<u>3,071,328</u>
<b>Non-operating income (expense):</b>				
Increase (decrease) in fair value of warrants	7,801,649	(45,050,638)		(31,612,218)
Interest income	510,215	188,448	165,287	35,342
Interest expense	(10,416)	(20,800)	( 35)	(4)
Total non-operating income (loss)	<u>8,301,448</u>	<u>(44,882,990)</u>	<u>165,252</u>	<u>(31,576,880)</u>
Income (loss) before income taxes	17,892,699	(33,769,214)	1,518,577	(28,505,552)
Income taxes	2,865,614	2,986,599	486,712	829,840
<b>Net income (loss)</b>	<b>\$ 15,027,085</b>	<b>\$ (36,755,813)</b>	<b>\$ 1,031,865</b>	<b>\$ (29,335,392)</b>
<b>Comprehensive income statement:</b>				
Net income (loss)	\$ 15,027,085	\$ (36,755,813)	\$ 1,031,865	\$ (29,335,392)
Foreign currency translation adjustment	1,743,207	(1,427,032)	1,697,722	(1,782,839)
<b>Comprehensive income (loss)</b>	<b>\$ 16,770,292</b>	<b>\$ (38,182,845)</b>	<b>\$ 2,729,587</b>	<b>\$ (31,118,231)</b>
<b>Weighted average number of shares outstanding:</b>				
Basic	29,647,487	20,882,353	29,714,017	20,882,353
Diluted	<u>39,800,488</u>	<u>20,882,353</u>	<u>38,529,272</u>	<u>20,882,353</u>
<b>Earnings per share:</b>				
Basic	\$ 0.51	\$ (1.76)	\$ 0.03	\$ (1.40)
Diluted	<u>\$ 0.38</u>	<u>\$ (1.76)</u>	<u>\$ 0.03</u>	<u>\$ (1.40)</u>

*See notes to unaudited condensed consolidated financial statements.*

**QKL STORES INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

**Nine Months Ended September 30,**

**2010**

**2009**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income	\$ 15,027,085	\$ (36,755,813)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation – property, plant and equipment	3,776,394	1,920,162
Amortization	30,920	20,359
Share-based compensation	823,540	-
Deferred income tax	( 434,518)	-
Change in fair value of warrants	(7,801,649)	45,050,638
Adjustments to reconcile net income to net cash provided by operating activities:		
Accounts receivable	(423,628)	342,666
Inventories	1,630,666	(1,034,325)
Other receivables	(763,314)	309,164
Prepaid expenses	(1,198,263)	(614,555)
Advances to suppliers	(938,109)	311,285
Accounts payable	(361,435)	2,225,442
Cash card and coupon liabilities	1,978,662	2,387,021
Customer deposits received	(2,949,589)	(317,626)
Accrued expenses and other payables	(968,598)	1,889,190
Income taxes payable	(95,213)	(493,640)
Net cash provided by operating activities	<u>7,332,951</u>	<u>15,239,968</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchases of property, plant and equipment	(5,486,632)	(4,225,388)
Acquisition of operating rights	(11,627,230)	-
Refund of office building purchase payment	11,015,480	-
Decrease of restricted cash	83,676	111,456
Net cash used in investing activities	<u>(6,014,706)</u>	<u>(4,113,932)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Repayment of bank loan	-	(2,192,178)
Net cash used in financing activities	<u>-</u>	<u>(2,192,178)</u>

Effect of foreign currency translation	1,141,629	(1,529,702)
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Net increase in cash	2,459,874	7,404,156
Cash – beginning of period	45,912,798	19,285,021
<b>Cash – end of period</b>	<u>\$ 48,372,672</u>	<u>\$ 26,689,177</u>

**Supplemental disclosures of cash flow information:**

Interest received	510,215	188,448
Interest paid	\$ 10,600	\$ 20,800

Income taxes paid

\$ 3,528,790 \$ 2,504,587